



# Guide to Kent's Business and Occupation Tax

(with Alternate Square Footage Requirement)

January 1, 2013

## ABOUT THIS GUIDE

This guide provides a basic description of Kent's B&O tax and focuses on typical types of businesses and business activities.

The material is intended for general information purposes only. It is current at the time of publication, but potential future changes in the Kent City Code (KCC) or state law may have an impact on the information presented in this guide. Further, not all possible applications of tax are included.

Additional information and specifics relating to your business may be obtained in Chapters 3.28 and 3.29 of the Kent City Code or by contacting the City's Finance Department. The Kent City Code is available at **[www.KentWA.gov](http://www.KentWA.gov)**.

The Finance Department can be reached by calling **253-856-6266**, email at **[Finance@KentWA.gov](mailto:Finance@KentWA.gov)** or mail **220 4th Avenue, South, Kent, WA 98032**

## OVERVIEW

- All companies doing business in the City, whether or not they are located within Kent's city limits, must be registered with the City's Customer Services Division.
- Gross receipts tax classifications:
  - ✓ Manufacturing/Processing for Hire
  - ✓ Wholesaling
  - ✓ Retailing
  - ✓ Services/Retail Services
  - ✓ Printing/Publishing
  - ✓ Extracting/Extractor for Hire
  - ✓ Other Activities
- All businesses are subject to the Business and Occupation (B&O) tax unless specifically exempted by Kent City Code.
- All businesses subject to the B&O tax are required to file a quarterly return even if no tax is due.
- The first \$62,500 of gross receipts earned in any quarter is exempt from the gross receipts tax.
- Businesses with total warehouse business floor space within Kent city limits of 4,000 taxable square feet or less and total other business space of 12,000 taxable square feet or less must still register and file the square footage tax form, but will not pay any square footage tax.
- Any individual or business required to obtain a City business license shall also register with the City for B&O gross receipts and square footage tax purposes.
- Vendors and other suppliers of goods and services to businesses located within Kent city limits may also be subject to the City's B&O tax.
- Gross receipts tax rates:
  - ✓ Manufacturing/Processing for Hire, Retailing, and Printing/Publishing - .046% (.00046)
  - ✓ Wholesaling, Services/Retail Services, Extracting/Extracting for Hire, and Other Activities - .152% (.00152)
- Square Footage Tax – \$.03 per square foot per quarter for business warehouse facilities and \$.01 per square foot per quarter for all other facilities
- The tax is due and payable on or before the end of the month immediately following the end of the tax reporting quarter, e.g. 1st quarter – April 30.

B&O TAX PAYMENT PROCEDURES

Unless exempt under Section 3.29.025 of the Kent City Code, all businesses engaged in any business activity in Kent must be registered with the City's Customer Services Division. There is no fee associated with this registration.

B&O tax returns are available at **www.KentWA.gov**.<sup>\*</sup> The forms must be completed and returned with payment of any taxes due by the last day of the following month.

Businesses may remit payment as follows:

- **City of Kent B&O Tax**  
P.O. Box 84665  
Seattle, WA 98124-5965

Penalties and interest for late payments are charged as follows:

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Penalties (\$5 minimum)	
1 day – 1 month overdue.....	5%
Over 1 month – 2 months.....	15%
Over 2 months.....	25%

Annual interest rate for 2013 is 2%  
There is a "non-sufficient funds" (NSF) charge of \$25.00.

*<sup>\*</sup>Taxpayers are encouraged to use the City's **interactive online forms** which will automatically calculate your return and email you a completed copy of your forms based on the information you provide. Once printed, you will need to sign and mail the forms with your payment. However, if no payment is due and you have filed electronically then you do not need to mail in a copy of your completed form. The City is currently developing an online payment option and will make an announcement when it becomes available.*

B&O TAX SCHEDULE

B&O tax is payable quarterly on the following schedule:

Quarter Ending .....	Payment Due
March 31.....	April 30
June 30 .....	July 31
September 30.....	October 31
December 31 .....	January 31

- Helpful hints when submitting your tax return:
- Remember to sign the tax return
  - Use the forms provided
  - Make check or money order payable to the City of Kent. Do not send cash.
  - Advise the Customer Services Division in writing of any change in address or status of ownership via tax form or business license form

All businesses subject to the B&O tax are required to file a quarterly return even if no tax is due.

Taxpayers are required to keep records for the most recent five-year return period. All books, records, invoices, receipts, etc. shall be open for examination at reasonable times by the City's Finance Department or designated agent.

# COMPONENTS OF KENT’S B&O TAX

The B&O tax has two components: gross receipts and square footage. These B&O taxes primarily support the City’s Transportation Infrastructure Improvement Program.

Every person, firm, association, or corporation doing business in Kent is subject to the B&O tax.

Most businesses will report in both the gross receipts business tax category and in the square footage category. A limited number of businesses - those located entirely outside Kent city limits but doing business in Kent - will report only in the gross receipts category.

Kent has a significant number of manufacturing, wholesaling and industrial facilities within its boundaries. Businesses making deliveries to those facilities may be subject to the City’s B&O tax.

## GROSS RECEIPTS B&O TAX

The gross receipts B&O tax is primarily measured by the gross proceeds of sales or gross income for the reporting period.

Businesses have been divided into several classifications. Businesses conducting multiple activities may need to report in more than one tax classification.

### The gross receipts rate applies as follows:

- Manufacturing/Processing for Hire - .046%
- Wholesaling - .152%
- Retailing - .046%
- Services/Retail Services - .152%
- Printing/Publishing - .046%
- Extracting/Extracting for Hire - .152%
- Other Activities - .152%

*Example: For each \$100,000 in wholesaling taxable gross receipts, \$152 tax is due.*

### Gross Receipts Tax Classifications:

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|--|---|---|
| <ul style="list-style-type: none"><li>• <b>Manufacturing/ Processing for Hire</b><br/><i>Manufacturing</i> is the business of producing articles for sale or for commercial or industrial use from the person’s own materials or ingredients. Examples include, but are not limited to, fabricating, processing, or refining.<br/><br/><i>Processing for Hire</i> means the performance of labor and mechanical services upon materials or ingredients belonging to others so that as a result a new, different or useful product is produced for sale or commercial or industrial use.</li><li>• <b>Wholesaling</b><br/>Sellers of products to persons other than consumers are considered to be wholesalers.</li></ul> | <ul style="list-style-type: none"><li>• <b>Retailing</b><br/>Businesses that sell products and specific services to consumers are defined as retailers.</li><li>• <b>Services/Retail Services</b><br/><i>Services</i> is the business of providing personal and professional services, such as lawyers, doctors, financial institutions, real estate brokers, insurance brokers and solicitors, and accountants.<br/><br/><i>Retail Services</i> is the business of services generally performed on property, such as repair and landscaping, as well as certain other specific personal and professional services.</li><li>• <b>Printing/Publishing</b><br/>Publishers of newspapers, magazines and periodicals are taxable under this classification, as well as persons who both print and publish books, music,</li></ul> | <p>circulars, etc. Printing includes letterpress, offset-lithography, and gravure processes as well as multi-graph, mimeograph, autotyping and similar activities. Firms engaging in photocopying documents should report that activity under the Retailing classification.</p> <ul style="list-style-type: none"><li>• <b>Extracting/Extractor for Hire</b><br/><i>Extracting</i> is the taking of natural products, such as logging, mining, quarrying, etc. B&amp;O tax is calculated based on the value of products extracted.<br/><br/><i>Extractor for Hire</i> means a person who performs under contract necessary labor or mechanical services for an extractor.</li><li>• <b>Other Activities</b><br/>Any business that is not subject to another B&amp;O tax classification must report under this category.</li></ul> |
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## EXEMPTIONS, DEDUCTIONS, AND CREDITS

Deductions are to be included in the gross receipts amounts then deducted when calculating the taxable amount on which the gross receipts tax rate applies. The most common exemptions and deductions are listed below.

### Common Exemptions

- Nonprofit corporations or organizations holding a Federal IRS nonprofit status under 26 U.S. C. Section 501(c)(3), except with respect to retail sales
- United States and Washington State governmental entities
- Health maintenance organizations, health care service contractors or certified health plan premiums or prepayments
- Public utilities
- Manufacture, sale or distribution of motor vehicle fuel
- Sale or distribution of liquor
- Sale, lease or rental of real estate, but excluding amounts received as commissions or for rentals of less than 30 days
- Insurance business (except bonding companies)
- Accommodation sales
- Farmers – Agriculture
- Investments – Dividends from subsidiary corporations
- International banking facilities
- Ride sharing
- Amounts received by persons with respect to their employment as an “employee”, as defined in the Internal Revenue Code, but excluding independent contractors
- Casual and isolated sales, e.g. business sale of its office furniture
- Research and development under federal contracts

### Common Deductions

- Retail or wholesale sales delivered outside of Kent
- Cash discounts taken by customers
- Credit losses or bad debts sustained by sellers
- Receipts from tangible personal property delivered outside the State
- Receipts from the sale of tangible personal property and retail services delivered outside the City but within Washington
- Compensation from public utilities for health or social welfare services
- Professional employer services

### Credits

- A multiple activities tax credit applies to persons who engage in business activities that are subject to tax under two or more tax classifications on the same revenues

## SQUARE FOOTAGE TAX

The square footage B&O tax applies to businesses that maintain offices or facilities in Kent where the office or facility itself may not generate revenue taxable under the gross receipts tax. Examples include headquarters offices and businesses that make out-of-City sales.

The square footage B&O tax is reported under the Square Footage Tax Classification on the tax return form and is measured on the taxable floor area of the facility computed to the nearest square foot as follows:

- Business warehouse floor space - \$.03 per foot
- Other business floor space - \$.01 per foot

A *business warehouse* is a building or structure, or any part thereof, in which goods, wares, merchandise or commodities are received or stored, whether or not for compensation, in furtherance of engaging in business.

*Other business floor space* means the floor space of an office or place of business, other than a business warehouse.

*Example: For each 10,000 square feet of taxable floor space for a business warehouse, \$300 tax is due each quarter.*

Persons with more than one office, warehouse, or other place of business within the City must include all building warehouse floor space and other business floor space for all locations within the City.

When a person rents space to another, the person occupying the rental space is responsible for the square footage tax on that rental space only if the renter has exclusive right of possession in the space against the landlord.

The business is required to remit the full gross receipts tax due, plus the amount, if any, of square footage tax that exceeds the gross receipts tax.

### Thresholds:

Only businesses with more than 4,000 square feet of warehouse business floor space or more than 12,000 square feet of other business floor space are subject to the square footage tax. This is a threshold for payment, not a threshold for filing.

If the square footage exceeds the above limits then the entire square footage is used in the calculation of the square footage tax.

## OTHER TAXES AND LICENSES

**Utility Tax:** This tax is similar to the gross receipts B&O tax except that it is imposed on utility businesses. The business activities affected by this tax are telephone, cellular, electric, natural gas, water, sewer, drainage, garbage collection, and disposal services. The rates range from 6% to 13%.

**Admissions Tax:** This tax is levied upon persons who pay an admission charge for entrance to an event or establishment. It is collected for the City by the business charging the admission, similar to the sales tax. The admissions tax rate of 5% is based on the ticket price.

**Gambling Tax:** All persons licensed by the Washington State Gambling Commission and conduct gambling activities in the City are required to pay the gambling tax.

Such activities include bingo, raffles, amusement games, punchboards and pull-tabs.

For-profit social card games are allowed within the Panther Lake Annexation Area only. The rate ranges from 2% to 11%.

**Regulatory Licenses:** The following regulatory licenses are administered by the Customer Services Division and require annual renewal:

- General business licenses
- Amusements/Amusement devices
- Taxicabs/vehicles for hire
- Gun clubs
- Pawnbrokers
- Going-out-of-business sales
- Solicitors
- Model studios/body painting establishments
- Adult entertainment
- Ambulances
- Public dances/dance halls
- Rental housing safety